

# Jinxin Fertility (1951 HK)

## Core emphasis on provision of high quality medical services

- Industry renowned physicians have joined Jinxin to strengthen its medical service capabilities.** The Company has appointed Mr. Duan Tao (段涛) as the chief strategy officer. Mr. Duan has been serving as the president of Sichuan WCH (锦欣妇儿, 四川锦欣妇女儿童医院) since May 2021. Prior to that, Mr. Duan served as the president and chief physician of Shanghai First Maternity and Infant Hospital (上海市第一妇婴保健院). Mr. Duan is a renowned expert and has been serving as the honorary chairman of the obstetrics and gynecology branch at the Shanghai Medical Association (上海市医学会) since March 2019. In Aug 2021, the Company announced the appointment of Dr. Li Yuan (李媛) as the chief medical officer, who will be primarily responsible for improving the quality of medical services. Dr. Li served as a director at the reproductive center of Beijing Chaoyang Hospital (北京朝阳医院). Dr. Li led the reproductive center of Beijing Chaoyang Hospital to become one of the top clinical centers in Beijing.
- Wuhan Jinxin Hospital may resume IVF operation in mid-2022E.** We expect Wuhan Jinxin Hospital to pass the government authorities' inspection in mid-2022E and resume the IVF business operation post the inspection. We believe the suspension of IVF business will not have significant impact on the Company's financial performance. We expect Wuhan Jinxin Hospital's IVF revenue to decrease from RMB38mn in 2021E to RMB16mn in 2022E, assuming business operation to resume in mid-2022E.
- Strong synergies between ARS and OB/GTN & pediatrics.** To date, Sichuan WCH is the only private Class III Grade-A OB/GYN & Pediatrics hospital in China. Post the acquisition, Jinxin will extend the value chain to provide integrated services including pregnancy preparation, ARS, childbirth and postpartum, which will enhance customer loyalty, maximize customer's life-time-value and regional influence, and promote a costless customer conversion (RMB56k for ARS service vs up to RMB170k for whole life cycle services). We also expect significant cost efficiencies from the economy-of-scale operation, enhancing bargaining power to supply chain and lowering user acquisition costs thanks to its strong brand awareness.
- Maintain BUY.** We believe Jinxin will replicate its successful business model in Chengdu to other regions including Shenzhen, Wuhan, Kunming, etc. To factor in the temporary suspension of Wuhan Jinxin Hospital, we revised down adjusted attributable net profit by 6%/ 16%/ 22% in FY21E/ 22E / 23E and cut our DCF-based TP to HK\$19.01 (WACC: 10.2%, terminal growth rate: 4.0%).

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,648	1,426	1,775	2,510	2,863
YoY growth (%)	79	-13	24	41	14
Net profit (RMB mn)	410	252	322	507	600
Adjusted net profit (RMB mn)	530	372	449	653	760
EPS (RMB)	0.19	0.10	0.13	0.20	0.24
YoY growth (%)	N/A	0	22	58	18
Consensus EPS (RMB)	N/A	N/A	0.15	0.23	0.29
P/E (x)	39.6	70.2	57.4	36.3	30.7
P/B (x)	2.1	2.4	2.1	2.0	1.8
ROE	6.7	3.3	3.9	5.6	6.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### BUY (Maintain)

Target Price	HK\$19.01
(Previous TP)	HK\$25.44
Up/Downside	+114.51%
Current Price	HK\$8.86

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Mkt. Cap. (HK\$ mn)	22,217
Avg. 3mths t/o (HK\$ mn)	166.11
52W High/Low (HK\$)	24.55/ 8.52
Total Issued Shares (mn)	2,508

Source: Bloomberg

#### Shareholding Structure

Management	25.69%
Warburg Pincus	8.81%
Hillhouse	7.69%
Other shareholders	57.81%

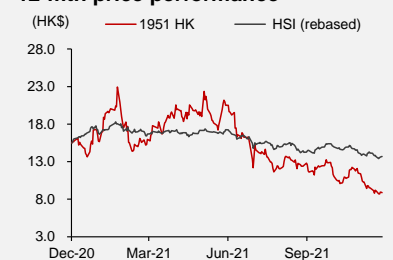
Source: HKEx, Bloomberg

#### Share performance

	Absolute	Relative
1-mth	-22.8%	-20.0%
3-mth	-30.8%	-27.8%
6-mth	-56.8%	-45.5%

Source: Bloomberg

#### 12-mth price performance



Source: Bloomberg

Auditor: Deloitte

Web-site: [www.jxr-fertility.com](http://www.jxr-fertility.com)

#### Related reports:

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- Better-than-expected recovery from COVID-19 impact – 2 Sep 2021
- Acquisition of two sizable IVF hospitals in Yunnan Province – 21 Jun 2021
- Fast recovery from COVID-19 impact – 30 Mar 2021

Figure 1: Earnings revision

RMB mn	New			Old			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,775	2,510	2,863	1,865	2,974	3,678	-5%	-16%	-22%
Gross Profit	763	1,180	1,374	802	1,398	1,765	-5%	-16%	-22%
Operating Profit	444	700	828	473	853	1,109	-6%	-18%	-25%
Adjusted Net profit	449	653	760	480	777	981	-6%	-16%	-22%
EPS (RMB cents)	13	20	24	14	25	32	-6%	-18%	-25%
Gross Margin	43.00%	47.00%	48.00%	43.00%	47.00%	48.00%	0.00 ppt	0.00 ppt	0.00 ppt
Operating Margin	25.00%	27.91%	28.93%	25.38%	28.69%	30.14%	-0.38 ppt	-0.78 ppt	-1.21 ppt
Net Margin	25.28%	26.01%	26.55%	25.74%	26.13%	26.66%	-0.45 ppt	-0.11 ppt	-0.11 ppt

Source: Company data, CMBIS estimates

Figure 2: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	1,775	2,510	2,863	1,807	2,486	3,049	-2%	1%	-6%
Gross Profit	763	1,180	1,374	779	1,134	1,459	-2%	4%	-6%
Operating Profit	444	700	828	451	703	918	-2%	0%	-10%
Adjusted Net profit	449	653	760	390	567	715	15%	15%	6%
EPS (RMB cents)	13	20	24	15	23	29	-16%	-12%	-17%
Gross Margin	43.00%	47.00%	48.00%	43.09%	45.60%	47.85%	-0.09 ppt	+1.40 ppt	+0.15 ppt
Operating Margin	25.00%	27.91%	28.93%	24.94%	28.26%	30.11%	+0.06 ppt	-0.35 ppt	-1.18 ppt
Net Margin	25.28%	26.01%	26.55%	21.60%	22.81%	23.43%	+3.68 ppt	+3.21 ppt	+3.12 ppt

Source: Company data, CMBIS estimates

Figure 3: Risk-adjusted DCF valuation

DCF Valuation (in Rmb mn)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	424	686	808	1,086	1,456	1,943	2,585	3,424	4,520	5,944
Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
EBIT*(1-tax rate)	318	515	606	815	1,092	1,457	1,938	2,568	3,390	4,458
+ D&A	134	139	139	159	181	206	232	261	293	326
- Change in working capital	(253)	(12)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
- Capx	(150)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
<b>FCFF</b>	<b>49</b>	<b>541</b>	<b>644</b>	<b>873</b>	<b>1,172</b>	<b>1,562</b>	<b>2,070</b>	<b>2,729</b>	<b>3,582</b>	<b>4,683</b>
<b>Terminal value</b>										<b>78,245</b>
<b>Terminal growth rate</b>	<b>4.0%</b>									
<b>WACC</b>	<b>10.2%</b>									
Cost of Equity	13.0%									
Cost of Debt	5.0%									
Equity Beta	1.0									
Risk Free Rate	3.0%									
Market Risk Premium	10.0%									
Target Debt to Asset ratio	30.0%									
Effective Corporate Tax Rate	25.0%									
Terminal value	29,557									
Total PV	38,271									
Net debt	(1,476)									
Minority interest	191									
Equity value	39,555									
# of shares (mn)	2,508									
Price per share (in Rmb)	15.77									
<b>Price per share (in HK\$)</b>	<b>19.01</b>									

Source: CMBIS estimates

## Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>1648</b>	<b>1426</b>	<b>1775</b>	<b>2510</b>	<b>2863</b>	<b>Profit before tax</b>	<b>548</b>	<b>349</b>	<b>444</b>	<b>700</b>	<b>828</b>
ARS	932	979	1224	1331	1509	Depreciation for PP&E	66	76	80	85	85
Management service fee	648	375	469	517	570	Change in working capital	(74)	(108)	(253)	(12)	(0)
Ancillary medical services	68	72	82	89	97	Others	38	41	20	14	8
Cost of sales	(832)	(860)	(1012)	(1330)	(1489)	Tax paid	(126)	(51)	(111)	(175)	(207)
<b>Gross profit</b>	<b>817</b>	<b>566</b>	<b>763</b>	<b>1180</b>	<b>1374</b>	<b>Net cash from operating activities</b>	<b>453</b>	<b>308</b>	<b>180</b>	<b>612</b>	<b>714</b>
Other income	63	74	53	58	65	Capex	(270)	(210)	(150)	(100)	(100)
Other expenses	(2)	(6)	(5)	(5)	(5)	Acquisition of subsidiaries	0	0	0	0	0
Other losses	28	57	11	10	10	Others	(2436)	79	(1609)	39	46
R&D expenses	(13)	(11)	(14)	(20)	(23)	<b>Net cash from investing activities</b>	<b>(2706)</b>	<b>(131)</b>	<b>(1759)</b>	<b>(61)</b>	<b>(54)</b>
Administrative expenses	(211)	(275)	(302)	(427)	(487)	Net proceeds from shares issued	2934	0	1056	0	0
Listing expenses	(63)	0	0	0	0	Bank borrowing	0	163	1500	0	0
Finance cost	(9)	(13)	(14)	(25)	(25)	Advance from related parties	30	62	0	0	0
<b>Profit before tax</b>	<b>548</b>	<b>349</b>	<b>444</b>	<b>700</b>	<b>828</b>	Others	(1317)	(280)	(0)	0	0
Income tax expense	(127)	(89)	(111)	(175)	(207)	<b>Net cash from financing activities</b>	<b>1647</b>	<b>(56)</b>	<b>2556</b>	<b>0</b>	<b>0</b>
<b>Total net profit</b>	<b>421</b>	<b>260</b>	<b>333</b>	<b>525</b>	<b>621</b>	Net change in cash	(606)	121	976	552	660
Minority Interests	(11)	(9)	(11)	(18)	(21)	Cash at the beginning	1184	580	682	1658	2210
<b>Profit attributable to shareholders</b>	<b>410</b>	<b>252</b>	<b>322</b>	<b>507</b>	<b>600</b>	<b>Cash at the end</b>	<b>580</b>	<b>682</b>	<b>1658</b>	<b>2210</b>	<b>2869</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>5,515</b>	<b>6,511</b>	<b>8,170</b>	<b>8,132</b>	<b>8,093</b>	<b>Sales mix (%)</b>					
Plant and equipment	857	1,056	1,126	1,141	1,156	ARS	56.5	68.6	68.9	53.0	52.7
Goodwill	809	890	2,533	2,533	2,533	Management fee	39.3	26.3	26.4	20.6	19.9
License	388	786	768	750	733	Ancillary services	4.1	5.1	4.6	3.5	3.4
Contractual right to provide management services	1,963	1,839	1,839	1,839	1,839	Total	<b>100</b>	<b>100</b>	<b>100</b>	<b>77</b>	<b>76</b>
Trademarks	1,305	1,256	1,256	1,256	1,256	<b>Profit &amp; loss ratios (%)</b>					
Others	193	684	648	612	576	Gross margin	50	40	43	47	48
<b>Current assets</b>	<b>3,426</b>	<b>2,652</b>	<b>3,586</b>	<b>4,157</b>	<b>4,825</b>	EBITDA margin	38	31	31	33	33
Inventories	26	25	28	36	41	Pre-tax margin	33	24	25	28	29
Accounts and other receivables	46	69	24	34	39	Net margin	25	18	18	20	21
Amounts due from related parties	50	81	81	81	81	Effective tax rate	23	25	25	25	25
Bank balances and cash	580	682	1,658	2,210	2,869	<b>Balance sheet ratios</b>					
Others	<b>2,725</b>	<b>1,795</b>	<b>1,795</b>	<b>1,795</b>	<b>1,795</b>	Current ratio (x)	8	5	2	2	3
<b>Current liabilities</b>	<b>436</b>	<b>555</b>	<b>1,760</b>	<b>1,766</b>	<b>1,775</b>	Trade receivables turnover days	3	2	5	5	5
Accounts and other payables	320	362	67	73	82	Trade payables turnover days	50	24	24	20	20
Capital contribution deposits	0	0	0	0	0	Net debt to total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Amounts due to related parties	41	68	68	68	68	<b>Returns (%)</b>					
Tax payables	46	61	61	61	61	ROE	6.7	3.3	3.9	5.6	6.2
<b>Non-current liabilities</b>	<b>863</b>	<b>1,146</b>	<b>1,146</b>	<b>1,146</b>	<b>1,146</b>	ROA	5.3	2.8	3.1	4.2	4.8
Deferred rent	0	0	0	0	0	<b>Per share value</b>					
Deferred tax liabilities	709	791	791	791	791	EPS (RMB)	0.19	0.10	0.13	0.20	0.24
<b>Total net assets</b>	<b>7,642</b>	<b>7,462</b>	<b>8,851</b>	<b>9,376</b>	<b>9,998</b>	DPS (RMB)	0.07	0.00	0.00	0.00	0.00
Minority interest	116	179	191	209	230	BVP (RMB)	3.46	3.11	3.53	3.74	3.99
<b>Shareholders' equity</b>	<b>7,527</b>	<b>7,283</b>	<b>8,660</b>	<b>9,168</b>	<b>9,768</b>						

Source: Company data, CMBIS estimates

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